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March 31, 2008

VIA E-FILING

Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of
Piedmont Natural Gas Company

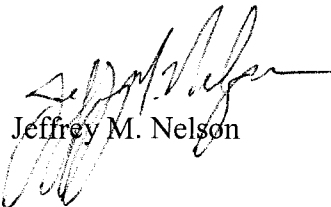
Docket No. 2007-4-G

Dear Mr. Terreni:

Enclosed please find the original and one copy of the Proposed Order Approving and Adopting Settlement Agreement in the above referenced docket. The parties of record have jointly drafted and consent to this Proposed Order.

By copy of this letter we are also serving all other parties of record. Please let me know if you have any questions.

Sincerely,



Jeffrey M. Nelson

JMN/pjm
Enclosures

cc: David Carpenter (via electronic delivery)
Tom Skains (via electronic delivery)
James H. Jeffries IV, Esquire (via electronic delivery)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-4-G

IN RE:

Piedmont Natural Gas)	JOINT PROPOSED
Company's Annual Review of)	ORDER RULING ON PURCHASED
Purchased Gas Adjustment and)	GAS ADJUSTMENT AND GAS
Gas Purchasing Policies)	PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina ("Commission") concerning its annual review¹ of the Purchased Gas Adjustment ("PGA") and gas purchasing policies of Piedmont Natural Gas Company, Inc. ("PNG"). The Office of Regulatory Staff ("ORS") is a party of record in this proceeding under the provisions of S.C. Code Ann. §58-4-10(B) (Supp. 2007). PNG and ORS (collectively the "Parties" or individually a "Party") entered into a Settlement Agreement ("Settlement Agreement") which was received by the Commission on November 9, 2007.

The Commission conducted a formal hearing in this matter on November 29, 2007, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable G. O'Neal Hamilton, Chairman, presiding. Jeffrey M. Nelson, Esquire appeared on behalf of ORS. James H. Jeffries IV, Esquire and Jeremy Hodges, Esquire appeared on behalf of PNG.

At the hearing, upon motions made by Mr. Nelson of the ORS and Mr. Jeffries on behalf of PNG, the Commission accepted into the record the pre-filed direct testimony of PNG witness David R. Carpenter and the pre-filed direct testimony and exhibits of PNG witnesses Keith P.

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

Maust and Robert L. Thornton along with the rebuttal testimony of David R. Carpenter, as well as the pre-filed direct testimony of ORS witness Carey M. Flynt and the direct pre-filed testimony and exhibits of ORS witness Daniel F. Sullivan together with the settlement testimony of Carey M. Flynt. Mr. Maust's exhibits were admitted into evidence as composite Hearing Exhibit No. 1. Mr. Thornton's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 3 and Ms. Flynt's exhibits were admitted into evidence as composite Hearing Exhibit No. 4.

PNG witness Carpenter testified as to the issues and challenges faced by PNG over the last several years with respect to its gas cost accounting and the measures taken to address those issues and challenges. PNG has worked in conjunction with ORS to ensure that an accurate statement of PNG's Review Period (April 1, 2006 through March 31, 2007) costs and deferred account balances are provided. PNG has also implemented detailed plans for a complete redesign and restructuring of its gas cost accounting systems and processes.

PNG witness Maust testified that PNG purchases gas supplies under a diverse portfolio of contractual arrangements and pays negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity. In addition, PNG has various pricing options available when developing its gas supply portfolio including fixed pricing, monthly market indexing and daily spot pricing. Fixed pricing scenarios are addressed in PNG's hedging plan which has been approved by the Commission. During the Review Period, PNG's South Carolina customers incurred a net economic cost, as detailed in the ORS report of

February 15, 2008, as a result of PNG's hedging plan and there were no deviations from the hedging plan during the Review Period.

Maust further testified that PNG utilized the flexibility within its supply and capacity contracts to purchase and dispatch gas, release capacity and initiate secondary marketing sales in a manner which resulted in South Carolina capacity release and secondary market sales credits of \$5,720,250. Furthermore, PNG's "best cost" purchasing policy has been reviewed by the Commission and has been found prudent on all occasions.

PNG witness Thornton testified that PNG maintains a Deferred Account 253.04 in which it tracks the over/under collection during the review period. In addition, Thornton testified that PNG maintains a Hedging Deferred Account in which it records the results of its hedging activities and that ORS conducted a detailed review of the balance in the account and the accounting data supporting the entries in the account.

ORS witness Flynt testified that PNG's gas purchasing policies indicate that PNG is attempting to get the best terms available in its negotiations with suppliers and that PNG is using the spot market prudently. Flynt further testified that PNG failed to provide regular reports to the Commission and ORS relative to the results of PNG's gas costs and deferred amounts as required in Order No. 88-294. Also, Flynt testified that although PNG failed to meet the reporting requirements regarding PNG's hedging program as required under Commission Order No. 2002-223, ORS determined that PNG managed its hedging program in a reasonable and prudent manner during the Review Period. In addition, ORS recommended that PNG begin filing regular monthly reports on its gas costs and deferred amounts as well as the hedging program and activities beginning with the report for the month of November 2007.

ORS witness Sullivan testified that because PNG's commodity true-up is subject to additional investigation by ORS and Piedmont, the final end-of-period increase or decrease to the under-collection could not be determined at that time. Sullivan recommended that the Commission approve additional investigation into PNG's Review Period commodity true-up, gas storage inventory, the interest on deferred account #253.04 and hedging program account #191.01 as outlined in Sullivan's testimony and set forth in the Settlement Agreement..

The November 9, 2008 Settlement Agreement reflected the Parties agreement that PNG's gas purchasing policies during the Review Period were reasonable and prudent; PNG properly adhered to the gas cost recovery provisions of its gas tariff during the Review Period; and PNG managed its hedging program in a reasonable and prudent manner during the Review Period. The Settlement Agreement further stated that PNG experienced significant issues with some aspects of the accounting and reporting of its gas costs during the Review Period. Those issues resulted in a difficult and extended audit in the proceeding and led to numerous ORS adjustments, including, but not limited to, PNG's commodity true-up, inventory accountability and deferred account-hedging program; several issues relating to PNG's commodity true-up calculation and inventory levels remained unresolved; and as a result ORS was unable to verify the end-of-period balance in deferred account #253.04. Accordingly, PNG and ORS agreed to engage in further investigative procedures to analyze the open issues relating to gas inventory levels and the commodity true-up and to report back to the Commission on the results of that investigation. PNG also agreed to report back to the Commission on the results of PNG's restructuring of its accounting practices and procedures on or before February 15, 2008.

At the hearing, and in response to the request of PNG and ORS contained in the Settlement Agreement, the Commission determined to hold open the docket pending completion of additional investigation and analysis by the Parties of several additional open items relating to gas inventory levels and the flow-through effect on the commodity true-up for the period of review. The Commission approved the timeframe stipulated by the parties for completion of this process. The Commission further reserved the right to convene such further proceedings in this docket as it deemed necessary and appropriate and the Parties indicated their consent to such additional procedures.

In compliance with the provisions of the Settlement Agreement and the Commission's directive in this regard, PNG submitted additional information to the ORS beginning on January 7, 2008. On February 14, 2008, the ORS filed its Final Report indicating its satisfaction with the additional information provided by PNG and concluding that the end of Review Period balance in deferred account #253.04 of (\$1,660,409) accurately reflected the under collection at March 31, 2007, and the inventory balances provided by PNG, including adjustment to tank levels, accurately reflected PNG's total inventories at the end of the Review Period. On the same date, PNG filed a letter with the Commission indicating its agreement with the conclusions and balances reflected in the ORS report in all respects. PNG also reported back to the Commission on its efforts to improve its gas cost accounting systems at that time.

This matter subsequently came before the Commission at its February 27, 2008 Commission Meeting at which time the Commission directed its Staff to set a date for the submission of proposed orders by the Parties.

NOW THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness David R. Carpenter and the pre-filed direct testimonies and exhibits of PNG witnesses Keith P. Maust and Robert L. Thornton along with the rebuttal testimony of David R. Carpenter are accepted into the record without objection.

2. The pre-filed direct testimony of ORS witness Carey M. Flynt and the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan together with the settlement testimony of Carey M. Flynt are accepted into the record without objection.

3. The Settlement Agreement and ORS's Final Report attached hereto are accepted into the record and incorporated into and made part of this Order by reference and, based upon the testimony and exhibits presented at the Hearing of this matter, are found to be in the public interest and to constitute a reasonable resolution of this proceeding.

4. PNG's gas purchasing policies, practices and PGA during the Review Period were reasonable and prudent.

5. PNG adhered to the gas cost recovery provisions during the Review Period in a reasonable and prudent manner.

6. PNG managed its hedging program, and hedging program account, in a reasonable and prudent manner during the Review Period.

7. PNG's deferred cost gas account #253.04 accurately reflects an under-collection of (\$1,660,409) as of the end of the Review Period as reflected in the ORS's February 14, 2008 Final Report.

8. PNG will provide regular monthly reports to the Commission on its account #253.04 activity and status and results of its hedging program.

9. The inventory balances provided by PNG, and confirmed by ORS, as reflected in the ORS February 14, 2008 Final Report, accurately reflect PNG's total inventories during the Review Period.

10. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

G. O'Neal Hamilton, Chairman

ATTEST:

C. Robert Moseley, Vice-Chairman